

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (Proposal Three) : Docket No. RM2020-10

COMMENTS OF UNITED PARCEL SERVICE, INC. ON NOTICE
OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL THREE)
(September 1, 2020)

TABLE OF CONTENTS

INTRODUCTION.....	1
ARGUMENT.....	2
I. PROPOSAL THREE IS AN IMPROVEMENT FROM CURRENT PROCEDURES	2
A. Proposal Three Will Improve Costing Efficiency and Accuracy.....	2
B. The Impacts of Proposal Three Are Reliable	5
C. Proposal Three Has Important Implications for Costing.....	8
II. PROPOSAL THREE CAN BE REFINED.....	10
A. Proposal Three Can Be Modified To Better Account For Labor Cost Variations.....	10
B. Proposal Three Can Be Modified To Better Account For Mail Mix Variations.....	13
CONCLUSION	14

United Parcel Service, Inc. (“UPS”) respectfully submits these comments in response to the Postal Regulatory Commission’s Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (June 15, 2020) (“Order No. 5548”). The deadline for these comments was extended to September 1, 2020, pursuant to the Commission’s Order No. 5621.¹

INTRODUCTION

Proposal Three seeks to change the In-Office Cost System (“IOCS”) methodology for sampling city carriers. The IOCS system plays a major role in the initial allocation of carrier costs to activities, which is the first step in attributing at least \$16 billion in annual Postal Service costs.² The current methodology relies heavily on telephone readings. In contrast, the new methodology will rely on a more efficient “cluster sampling approach that utilizes census data from [the Time and Attendance Collection System (“TACS”)] to enable on-site data collection in the locations and times where and when city carriers are working on the premises.”³

UPS supports the adoption of Proposal Three, which is designed to “reshape the sampling design significantly in order to improve sampling efficiency and data quality.”⁴ Proposal Three will replace the morning telephone readings in the current system with

¹ See Order Granting Motion for Access to Non-Public Materials and Extending Comment Deadline, Dkt. No. RM2020-10 (Aug. 6, 2020), at 2-3.

² See Dkt. No. ACR2019, Library Reference USPS-FY19-2 Public Cost Segments and Components Report (noting that in FY2019, City Carrier costs (cost segments 6 & 7) totaled \$16.75 billion). While roughly \$800M of that total is special purpose route costs that the Postal Service models separately, many billions of dollars are “piggy-backed” on the results of the attribution of cost segments 6 and 7.

³ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principals (Proposal Three) (“Petition”), Dkt. No. RM2020-10 (June 11, 2020), at 3.

⁴ *Id.* at 1.

on-site data collectors conducting readings using a two-stage cluster sampling design.⁵ The presence of these data collectors relieves supervisors and other telephone respondents with operating responsibilities of the burdens they bear under the current methodology, freeing them to focus on their primary responsibilities.⁶ Proposal Three also improves the reliability and accuracy of the data that is collected. Specifically, under Proposal Three, trained data collection specialists will be able to scan barcodes, and will more likely be able to correctly identify the type of mail that a sampled carrier is handling at a given point in time.⁷

But although UPS supports Proposal Three as an improvement over the current IOCS methodology, UPS also notes that Proposal Three can be refined to account for (1) temporal variations in labor costs per hour, and (2) temporal variations in mail mix, both of which have the potential to significantly impact cost attribution. These proposed modifications are incremental and should not delay the approval of Proposal Three, but will minimize the risk of inaccuracies in the IOCS methodology.

ARGUMENT

I. PROPOSAL THREE IS AN IMPROVEMENT FROM CURRENT PROCEDURES

A. Proposal Three Will Improve Costing Efficiency And Accuracy

There are significant reasons to be concerned that the current sampling approach results in inefficiencies and increases the risk of inaccuracies. For example, according to the Office of Inspector General (“OIG”), nearly half of the IOCS readings

⁵ *Id.* at 2.

⁶ *Id.*

⁷ *Id.* at 2, 10.

marked as completed were conducted while the sampled employee was unavailable.⁸

This problem is present in the readings for all employee types (city carriers, clerks, mail handlers, and supervisors) sampled by IOCS. Approximately 42% of city carrier readings are scheduled at times when the employee is unavailable, as shown in the table below. This inefficiency means that the current process for obtaining the information needed to reliably attribute costs is more costly and disruptive of normal operations than optimal or necessary.

Table 1: IOCS Readings and Employee Unavailability, FY2019⁹

	Total	Employee Unavailable	Percent Unavailable
	[1]	[2]	[3]
City Carrier	226,403	94,782	41.9%
Clerk	210,950	103,725	49.2%
Mailhandler	77,565	42,810	55.2%
Supervisor	39,189	15,837	40.4%
Total	554,107	257,154	46.4%

[1], [2]: Derived from USPS-FY19-37/Data/PRCPub19.sas7bdat.

[3] = [2] / [1].

The current IOCS system also contains features that increase the risk of inaccuracies. For instance, current procedures allow respondents to avoid sampling pieces that might delay a carrier.¹⁰ Further, under the current IOCS system, there is a

⁸ Office of Inspector General, *In-Office Cost System Sampling Processes*, Report Number 19-032-R20 (“OIG Report”), at 1, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/19-032-R20.pdf> (last accessed Sept. 1, 2020) (“In FY 2019, of the 554,107 total IOCS readings marked as completed, 257,154 (or about 46 percent) were conducted while the selected employees were unavailable.”).

⁹ See Dkt. No. ACR2019, Library Reference USPS-FY19-37. Calculations are provided in library reference UPS-LR-RM2020-10/1.

¹⁰ Petition at 11.

risk that respondents' focus on their primary responsibilities might make it harder to accurately collect and track a sampled mail carrier.¹¹

The cluster approach underlying Proposal Three remedies these deficiencies and thus, a priori, yields more accurate than the current IOCS sampling process. Proposal Three's cluster sampling approach increases the feasibility of using on-site data collectors for morning readings, in lieu of reliance on telephone readings. By implementing this approach, the Postal Service will collect more accurate cost data due to the advantages of in-person data collection over telephone data collection. As the Postal Service explains, "having a dedicated data collector on-site allows them to take the time to retrieve a mailpiece from a carrier with less disruption and delay of both the carriers and respondents."¹² Further, data collectors can scan barcodes and receive specialized training, which better equips them to recognize various types of mail.¹³ Proposal Three's new approach to sampling thus results in a significant increase in the percentage of direct tallies where the carrier is handling a mailpiece (where the information can be collected more efficiently).¹⁴

¹¹ *Id.* at 10.

¹² *Id.* at 11.

¹³ *Id.* at 10.

¹⁴ IOCS tallies generally fall into one of four types—direct, mixed mail, support, and street. The costs incurred by city carriers performing each activity type are attributed to products (or not attributed in some cases) in varying ways. For example, 100% of direct tally costs are attributed to the products in question. Mixed mail costs are also attributed to products, based on data collected through direct tallies. Support costs are either treated as fixed, or attributed in proportion to other city carrier costs, including direct and allocated mixed tally in-office labor costs. Street costs, however, are subject to an extensive subsequent cost modeling process that involves additional steps, including another cost pool formation step, application of variabilities, and application of distribution keys.

B. The Impacts Of Proposal Three Are Reliable

Proposal Three's cluster sampling methodology produces more reliable results that indicate a better, more accurate approach than the current IOCS sampling process.

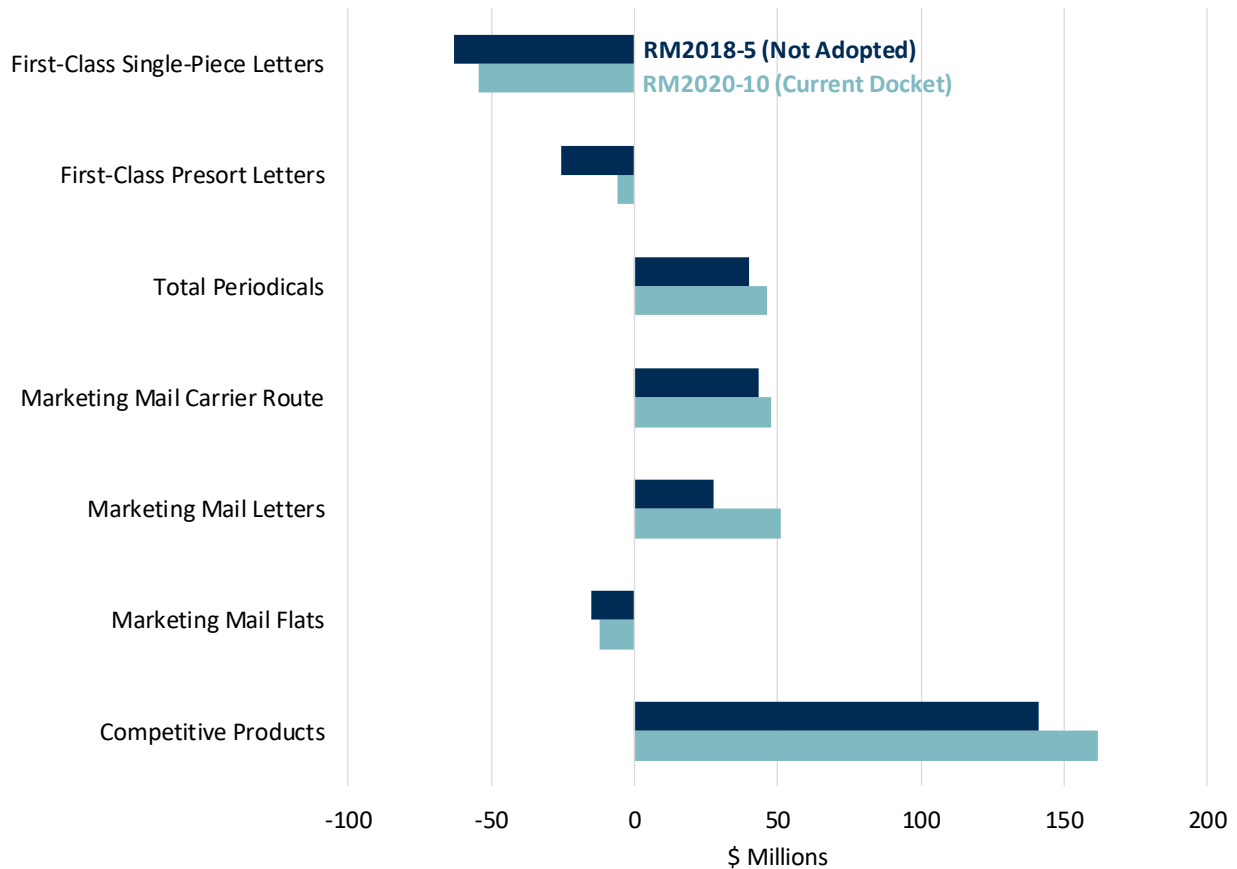
First, Proposal Three produces results that align with the results anticipated by the Postal Service based on the effected changes. For example, the increase in direct tallies resulting from the proposed approach is consistent with the rationale offered by the Postal Service: that a trained, dedicated data collector without other competing responsibilities will do a better job implementing IOCS data collection procedures, recognizing mail markings, and sampling pieces regardless of potential delay to a carrier.¹⁵ These factors would be expected to result in an increase in the number of readings that produce a direct mail tally—and, indeed, the results using Proposal Three bear out that expectation.

Second, as shown in Figure 1, the cost impacts that would result from adoption of Proposal Three are largely consistent with those that would have resulted from the most recent IOCS-Cluster Proposal, in RM2018-5, had it been approved and implemented.¹⁶

¹⁵ See Petition at 10-11.

¹⁶ See Order Approving in Part Proposal Two, Dkt. No. RM2018-5 (Jan. 8, 2019) (“Order No. 4972”).

Figure 1: Direct In-Office Labor Cost Impacts from IOCS-Cluster



Sources: USPS-RM2018-5 Order No. 4972, Table 1; Calculations using data provided in USPS-RM2018-5-1 and USPS-RM2020-10-1.

Notes: The dark blue bars represent the estimated impact from moving to the IOCS-Cluster approach in RM2018-5 for the products represented in Table 1 of Order No. 4972 as well as Competitive Products, had that proposal been adopted. The light blue bars are the corresponding impacts in the current docket. Bars that extend to the right of zero indicate that direct in-office labor costs will increase, while bars that extend to the left of zero indicate that these costs will decrease.

The Commission expressed concern in Order No. 4972 in that docket that the decrease in estimated costs for First-Class Single-Piece and Presort letters could indicate a decrease in accuracy—citing a variety of possible reasons for concern, including the quality of the data collected, the change in sampling methodology, the historical Cost Ascertainment Group (“CAG”) A/B realignment, and the lack of annual

CAG realignment adjustments yet to be implemented.¹⁷ Proposal Three makes changes that largely address the concerns expressed by the Commission in RM2018-5,¹⁸ while still yielding the largest and most material improvements in accuracy that would have resulted from the proposal in RM2018-5, including the more than doubling of in-office direct labor costs for Competitive Products. Together with the Postal Service's changes to address the concerns raised by the Commission in Order No. 4972, the consistency of the results between Proposal Three and the IOCS-Cluster Proposal in RM2018-5 attests to the superiority of Proposal Three over the current methodology.

Third, analysis provided under seal in the non-public library reference accompanying these Comments demonstrates that the major shifts caused by Proposal Three are not driven by any particular CAG, or any particular time period, which supports the accuracy of the Proposal Three methodology.¹⁹ Examination of the differences in product level cost attribution between the current methodology and Proposal Three indicates that, for the most part, when there is a substantial shift in the share of costs attributed to a specific category of mail, the shift is fairly uniformly distributed across CAG groups. The uniformity of these impacts across time and facility

¹⁷ *Id.* at 18.

¹⁸ See Petition at 2.

¹⁹ The analysis and results discussed here do not reveal any sensitive information with respect to individual Competitive Products, geographic distribution of the mail, or other topics considered sensitive by the Commission and the Postal Service. However, as the non-cluster IOCS data for the first two quarters of FY20 were only provided on a non-public basis, the calculations are provided only under seal in the non-public library reference accompanying this petition, out of an abundance of caution. See USPS-RM2020-10-NP1.

size support the quality and integrity of the sample design and data collection methods upon which Proposal Three is based.

Finally, the greater statistical reliability of the new methodology, on average, is another key factor that weighs in favor of Proposal Three.²⁰ Coefficients of variation (“CVs”) measure the precision of the cost estimates, and the vast majority of CVs are lower under the cluster methodology than under the non-cluster methodology. The prevalence of lower CVs points to an increase in precision. Of the 33 entries that have CVs under the cluster and non-cluster methodologies, 28 have lower CVs under Proposal Three relative to corresponding measures for FY2019 under the current methodology. CVs also have improved relative to the previous filing of IOCS-Cluster in RM2018-5.²¹ The few instances in which the CVs increase under the new methodology generally do not involve large pools of cost. The primary exception is street time, a large pool of cost whose CV increases slightly under Proposal Three, while remaining very low in absolute terms—under 0.5%.²²

C. Proposal Three Has Important Implications For Costing

The improvement in costing accuracy from Proposal Three has significant effects on the attribution of costs to products. As summarized in the Petition and Table 2 below, the largest material impact is an increase in the overall costs attributed to domestic Competitive Products.²³ Proposal Three results in an increase of

²⁰ See *id.* at 17.

²¹ *Id.* at 16.

²² The list of cost categories in Table 9 of the Petition that experience an increase in CV under Proposal Three includes, somewhat anomalously, total First Class Mail, despite that fact that under Proposal Three five of the six subcategories of First Class mail—including the four accounting for the largest cost shares—experience a *decline* in CV under this proposal.

²³ Petition at 14-15 (Table 8).

approximately \$161 million in direct Competitive Product city carrier attributable costs in Cost Segments 6 and 7 over the six-month period analyzed, and an increase of \$222 million once associated (or “piggybacked”) costs are considered.²⁴ Marketing Mail and a number of other Market Dominant products will also see attributable cost increases under Proposal Three. These class-level cost increases would be partially offset by a decrease in First-Class Mail costs and Other (Institutional) costs.

Table 2: Summary of Proposal Three Cost Impacts (Millions of Dollars)²⁵

	Change in In-Office Direct Labor Costs	Cost Segment 6&7 Impact	Total Impact
Mail Class	[1]	[2]	[3]
Market Dominant Products			
First Class Mail	-56	-129	-176
Marketing Mail	123	63	86
Other Market Dominant (including Services)	75	71	96
Total Market Dominant	143	5	7
Domestic Competitive Products			
International	162	161	222
Other (Institutional)	10	9	12
	5	-175	-241
Total	319	0	0

[1], [2]: USPS-RM2020-10-1 (Cluster20PublicCostImpactFinal.xlsx).

[3]: Calculated using numbers provided in Table 8 on page 15 of the Petition.

Column [1] above provides data on the class-level changes in the component of city carrier costs that are most directly affected by the current proposal—in-office direct labor costs. These results in turn directly relate to improvements in the information collected during the readings. The changes entailed in Proposal Three have a

²⁴ See columns [2] and [3] of Table 2; see also Petition at 15 (Table 8).

²⁵ See Library Reference USPS-RM2020-10-1 (Cluster20PublicCostImpactFinal.xlsx); Petition at 15 (Table 8).

significant impact, and indicate that current methods understate the costs of Competitive Products.

II. PROPOSAL THREE CAN BE REFINED

Proposal Three represents a step forward but still has room for further refinements. In particular, the proposed revised IOCS methodology does not sufficiently emphasize temporal variations in (A) labor costs, and (B) mail mix, both of which have implications for cost attribution. UPS thus proposes the below modifications to reduce the risk of inaccuracies.

A. Proposal Three Can Be Modified To Better Account For Labor Cost Variations

Neither the current IOCS methodology nor Proposal Three's methodology takes into account city carrier hourly pay differences due to overtime pay, salary differences among full-time carriers, salary differences among other city carriers, Sunday premium wages, holiday wages, or night differential wages.²⁶ Omitting these factors could lead to inaccuracies because the IOCS data collection effort should aim to correctly measure the **costs** (as opposed to only labor hours) associated with products. Hourly pay differences are an important determinant of costs, particularly if they vary in conjunction with the mail mix. Proposal Three, like the current IOCS methodology, strives to approximate wage differentials by distinguishing between full-time and part-time carriers.²⁷ But this approach does not account for other important labor cost variations. The Postal Service acknowledges that "the reliability of pay differences has not been

²⁶ Responses of the United States Postal Service to Chairman's Information Request No. 3, Dkt. No. RM2020-10 (Aug. 14, 2020), at 6-8 (responses to questions 4 and 5).

²⁷ *Id.* at 8 (response to question 5).

thoroughly investigated,” and that it is not easy to “reliably assign overtime pay differences based solely on the pay status at the time of the [sample] reading.”²⁸

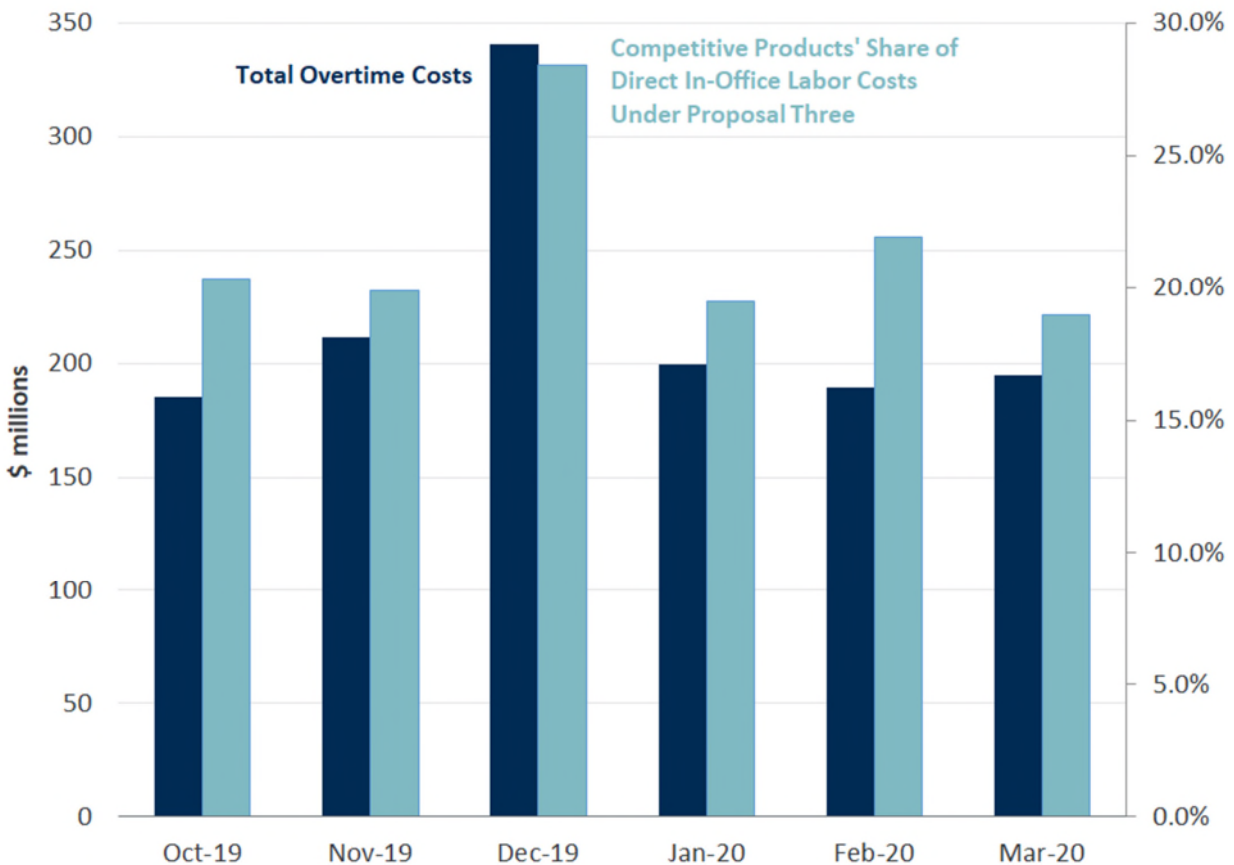
To address this gap, UPS suggests that the Postal Service refine Proposal Three by developing a weighting scheme that accounts for differences in hourly wage costs, not just those associated with average wage differentials between full-time and part-time carriers. For instance, the methodology should be adjusted to account for variations in overtime costs, which vary markedly throughout the year. Specifically, the monthly trial balance data indicate that total city carrier overtime costs in December 2019 were \$340 million, ranging from 61% to 84% greater than in the other five months analyzed under Proposal Three.²⁹ This variation mirrors the monthly variation in Competitive Products’ share of direct in-office labor costs, as indicated below in Figure 2.³⁰

²⁸ *Id.* at 6-7 (response to question 4).

²⁹ Monthly Trial Balance data, as provided by the Postal Service and published on the Commission’s website. Including “Overtime Pay” (account 51103.113) and “Penalty Overtime Pay” (account 51104.113), December overtime costs were almost \$340.5 million. The same costs in the other five months ranged from \$185.3 million in October 2019 to \$211.2 million in November 2019.

³⁰ UPS notes that overtime pay and Competitive Product volumes have surged again in recent months, as the COVID-19 pandemic and associated “lockdowns” have increased demand for package delivery. See, e.g., United States Postal Service Form 10-Q for the Period Ended June 30, 2020, at 31 (Shipping & Packages revenue increased 53.6% relative to the same period last year). Monthly trial balance data indicate that city carrier overtime costs were 62% higher in June of 2020 than in June of 2019.

Figure 2: City Carrier Overtime Costs and Competitive Products' Share of Direct In-Office Labor Costs, FY2020 (Q1-Q2)



Source: Calculations using data provided in USPS-RM2020-10-1 and in monthly trial balances.

The refinement proposed by UPS is relatively straightforward. It is not necessary to know the exact overtime status of the individual sampled employees, as the Postal Service has expressed concern about previously.³¹ Instead, the Postal Service can adjust its weighted hours using an overall ratio of overtime hours to total hours within the month.³²

³¹ See Responses of the United States Postal Service to Chairman's Information Request No. 3, Dkt. No. RM2020-10 (Aug. 14, 2020), at 6-7, 9 (responses to questions 4 and 6).

³² Depending on the level of detail available in the TACS microdata, it may also be possible to perform this calculation at the craft group-CAG-route group level, which would add precision.

Similarly, to the extent that reliable proxies exist for other major differences in hourly wage costs (e.g., salary differences among full-time carriers, Sunday premium wages, etc.), UPS proposes adjustment of Proposal Three's methodology to account for these factors.

B. Proposal Three Can Be Modified To Better Account For Mail Mix Variations

Similarly, UPS proposes that Proposal Three's methodology be adjusted to better account for variations in the mail mix over time. Through the use of quarterly control totals, the current proposed methodology effectively weights the mail mix on a quarterly basis (e.g., October to December).³³ However, variation in the mail mix within each quarter (*i.e.*, across months) creates the potential for bias in the costing results. The possibility of bias arises because the mail mix can and does change drastically even within each quarter, and in particular the quarter spanning October, November, and December.³⁴ Through variation in different products' shares of the mail mix across the six months analyzed, the results of the IOCS-Cluster methodology also reflect this changing mail mix within a quarter, as can be seen in Table 3 below. This result suggests that Competitive and Market Dominant products' relative importance to in-office direct labor costs differs significantly in December, versus in October and November. If, within a quarter, the timing of the collection of data differs from the timing of the costs being incurred, this raises the potential for costing inaccuracies.³⁵

³³ See, e.g., Library Reference USPS-RM2020-10-1, Appendix A.pdf, at 4.

³⁴ See, e.g., Petition of United Parcel Service, Inc., for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, Dkt. No. RM2020-9. (May 29, 2020), at 1-5.

³⁵ For example, suppose that the data collection that underlies the costing methodology occurs primarily during periods in the quarter with low package volumes, but that the costs being attributed are incurred primarily during periods in the quarter with high package volumes. In

Table 3: Share by Month of In-Office Direct Labor Costs under Proposal Three – FY2020 Quarter 1, Selected Products

Month	First-Class Single-Piece Letters	Marketing Mail Carrier Route	Competitive Products
	[1]	[2]	[3]
Oct-19	5.9%	12.2%	20.3%
Nov-19	5.6%	12.6%	19.9%
Dec-19	8.7%	8.7%	28.4%

Source: Calculations using data provided in USPS-RM2020-10-1.

To address this issue, UPS proposes that the IOCS methodology adopt monthly control weights rather than quarterly ones. Adopting monthly control weights is a straightforward way to refine Proposal Three and should be feasible given the Postal Service has the data needed to weight costs or hours monthly.³⁶

CONCLUSION

For the reasons discussed above, UPS considers Proposal Three to be a major step forward toward more accurate attribution of delivery costs. UPS further suggests slight modifications to Proposal Three that would account more accurately for variations in (A) labor costs, and (B) mail mix. These proposed modifications are incremental and should not prevent the timely implementation of Proposal Three. The Commission should not delay implementation of a well thought out improvement in costing procedures until it can think of no further ways to improve them. The Postal Service is

such circumstances, failure to use control totals that vary within a quarter would lead to under-attribution of costs to packages.

³⁶ Adopting monthly control totals would have only modest impacts if applied to the six months analyzed and presented in this docket. However, as the within-quarter patterns in the mail mix and the timing of data collection evolve in future years, the use of monthly control totals would provide a safeguard against inaccuracies like those described above.

undergoing rapid and significant change, and cost modeling and attribution will always be works in progress. All parties should work together to allow regulatory practice to keep up with rapidly changing market realities.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By */s/ Steig D. Olson*

Steig D. Olson
Christopher M. Seck
David LeRay
Andrew Sutton
Kat Lanigan
Quinn Emanuel Urquhart &
Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7152
steigolson@quinnemanuel.com
christopherseck@quinnemanuel.com
davidleray@quinnemanuel.com
andrewsutton@quinnemanuel.com
katlanigan@quinnemanuel.com

Attorneys for UPS